

RENO OFFICE

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Reno Employment in Thousands	231.5	239.4	▲
Reno Unemployment	4.1%	3.3%	▼
U.S. Unemployment	4.3%	3.8%	▼

May 2017/2018 used to represent Q2 for Reno

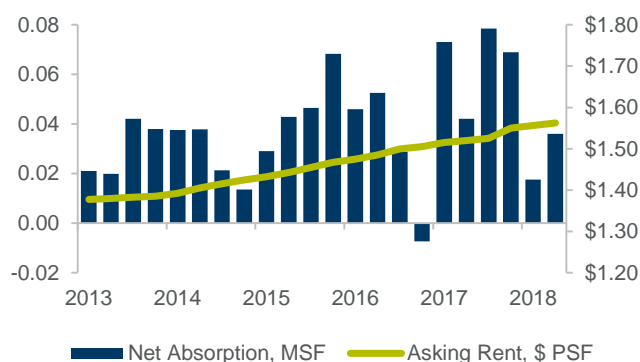
Market Indicators (All Classes)

	Q2 17	Q2 18	12-Month Forecast
Overall Vacancy	9.5%	9.6%	▼
Net Absorption (sf)	-37,873	-7,423	▼
Under Construction (sf)	16,018	149,611	▲
Average Asking Rent*	\$1.53	\$1.57	▲

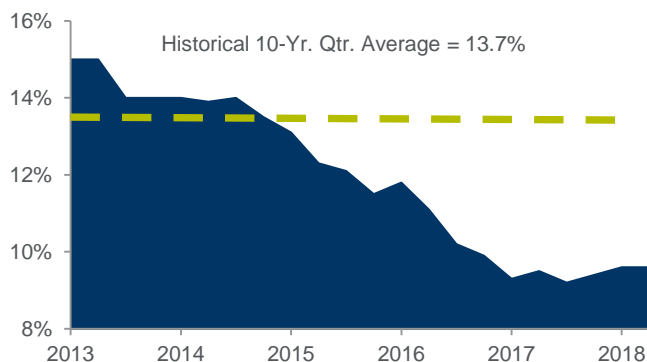
*Rental rates reflect gross rent overall \$psf/monthly

Net Absorption/Asking Rent (Gross Rent Overall, Monthly)

4-QTR TRAILING AVERAGE



Overall Vacancy – All Classes, incl. Sublease



Economy

The Reno employment market continued to record job growth, adding 7,900 jobs (+3.4%) year-over-year through May 2018.¹ Of the 7,900 jobs added, 1,800 (or 23%) were office jobs consisting of two sectors: professional and business services and financial activities. During the same time period, the unemployment rate decreased 80 basis points (bps), dropping to 3.3%. Also worth noting, the current rate is 270 bps below the 28-year average of 6.0%.

All employment sectors are expected to grow at a combined growth rate of 4.1% in 2018. Reno's economy of \$25.8 billion² as measured by gross regional product is forecasted to grow an additional 4.4% in 2018 and 3.5% in 2019, above its 10-year average of 2.2%.³

Market Overview

The overall office vacancy (including sublease) remained unchanged compared to Q1 2018 yet increased 10 bps to 9.6% from a year ago. This slight increase was driven by a 30 bps increase in sublease vacancy year-over-year while direct vacancy decreased 20 bps during the same time. Tenants occupied 3,900 sf of Class B space in Q2 yet returned 2,900 sf of Class A and 8,400 sf of Class C space, resulting in a combined negative 7,400 sf of absorption during the Q2 2018. Year-to-date tenants have absorbed over 40,500 sf of class B space, lowering Class B vacancy by 40 bps over the last six months and 80 bps over the last 12 months. Q2 was the fourth consecutive quarter of positive occupancy gains recorded in Class B space. South Meadows and Meadowood submarkets recorded the highest occupancy gains in Q2, lowering the overall vacancy 90 bps to 7.4% and 80 bps to 11.1% respectively over the last three months.

Overall vacancy in Class A space was 13.4% at the end of Q2, 630 bps higher than a year ago, as a result of 108,000 sf of Class A space returned to the market over the last four quarters combined. Two buildings, totaling 14,513 sf, located at 5443 Kietzke Ln. and 5385 Reno Corporate Dr. in Meadowood submarket were delivered in Q2. Ten buildings, totaling 149,611 sf, are currently under construction, of which five, totaling 94,000 sf, are estimated to be completed in 2018.

Average asking rent of \$1.57 per month for all classes remained nearly unchanged from Q1 2018 (\$1.56). Average asking rent of \$1.96 per month for Class A increased 2.6% during the same time, despite the increase in available Class A space.

Northern Nevada office market kicked off 2018 by recording \$101.2 million in sales activity, in line with 2017 (\$186.5 million) which was the best year since 2005. Private investors continue to be the leading buyers of office properties, accounting for nearly 80% of activity followed by REITs and institutional buyers.⁴

Outlook

- Population grew more than twice as fast as the U.S. average in 2017, owing largely to strong net migration, a trend that is expected to continue.
- Continued economic and job growth along with lower cost of living compared to neighboring states and improving industrial diversity will drive occupancy and rent growth in 2018.

Sources: ¹www.bls.gov ²bea.gov ³GDP as of 2016. (f) by Moody's Analytics economy.com ⁴Costar.

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	AVERAGE ASKING RENT* (ALL Classes)	AVERAGE ASKING RENT* (CLASS A)
Central/Airport	153	2,481,252	38,490	240,443	11.2%	581	10,908	0	\$1.16	-
Downtown	149	4,444,288	3,848	381,968	8.7%	-57,841	-46,781	0	\$1.66	\$2.02
Meadowood	152	3,207,396	37,697	318,389	11.1%	24,604	-46,187	137,575	\$1.73	\$1.98
South Meadows	119	2,097,357	13,775	141,549	7.4%	28,755	32,616	0	\$1.77	\$1.89
Sparks	83	1,047,345	10,000	54,072	6.1%	-1,641	14,629	12,036	\$1.32	-
West Reno	33	322,199	0	65,637	20.4%	-1,881	3,336	0	\$1.23	-
TOTAL	689	13,599,837	103,810	1,202,058	9.6%	-7,423	-31,479	149,611	\$3.02	\$1.57
Class A	24	1,888,548	49,305	203,053	13.4%	-2,945	-55,625	40,826	\$1.96	
Class B	393	7,410,623	8,635	642,801	8.8%	3,914	40,509	108,785	\$1.58	
Class C	272	4,300,666	45,870	356,204	9.3%	-8,392	-16,363	0	\$1.33	
TOTAL	689	13,599,837	103,810	1,202,058	9.6%	-7,423	-31,479	149,611	\$1.57	

*Rental rates reflect gross asking rents \$psf/monthly. Vacancy rate and net absorption includes direct and sublease. Inventory includes properties of 5,000 sf and larger.

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
5250 S. Virginia St.	16,559	AT&T	Resource Mgmt. & Development	New	Meadowood
5301 Kietzke Lane	10,000	Schwab Brokerage	Charles Schwab Corporation	New	Meadowood
245 E. Liberty Street	9,871	Undisclosed	McKenzie Properties	New	Downtown
10509 Professional Circle	7,562	Evergreen Bank	Thomas Louderbeck	Renewal	South Meadows
10509 Professional Circle	6,939	Associated Management	Thomas Louderbeck	Renewal	South Meadows

Key Sale Transactions Q2 2018

PROPERTY	SF	BUYER	SELLER	PRICE / \$PSF	SUBMARKET
U.S. Bank Centre	106,823	REO Disposition LLC	LBA Realty	\$14,875,000 / \$139.25	Meadowood
St. Mary's Medical Plaza	38,456	St Mary's Medical Building LLC	St Mary's Medical Plaza LLC	\$5,500,000 / \$143.02	Downtown
6995 Sierra Center Parkway	19,806	Bergmann 1999 Trust	Equilibrium LLC	\$5,500,000 / \$277.69	Meadowood
9600 Gateway Drive	15,672	State of Nevada	Laxalt & Nomura Building Co.	\$3,400,000 / \$216.95	South Meadows
932 Ryland Street	7,642	Fortress Fund Reno LLC	COP Reno LLC	\$3,768,102 / \$493.08	Downtown

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